

## Message Text

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ACTION EUR-12

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E.O. 11652: N/A

TAGS: EFIN, EEC

SUBJECT: EUROPEAN COUNCIL ECONOMIC ISSUES -- EC COMMISSION PLANS  
TO FOLLOW UP

REF: A. EC BRUSSELS 6515

B. EC BRUSSELS 6487

C. EC BRUSSELS 6455

D. EC BRUSSELS 6506

1. BEGIN SUMMARY: IN RESPONSE TO THE EC HEADS' OF GOVERNMENTS CALL FOR COORDINATED MEMBER STATE ECONOMIC MEASURES, THE EC COMMISSION IS PLANNING TO PROPOSE ECONOMIC GUIDELINES AND A JOINT ANNOUNCEMENT OF MEMBER STATES' EXPANSIONARY PROGRAMS. THE COMMISSION IS ALSO CONSIDERING ECONOMIC DISCUSSIONS WITH THE US AND PERHAPS JAPAN TO ASSESS JOINTLY ECONOMIC CONDITIONS. END SUMMARY.

2. NOW THAT THE EUROPEAN COUNCIL (HEADS OF GOVERNMENT) HAS CALLED FOR JOINT EXPANSIONARY MEASURES, THE EC COMMISSION IN PREPARING A SERIES OF

ECONOMIC GUIDELINES FOR THE MEMBER STATES. (WE UNDERSTAND THAT THE COUNCIL DID NOT IN FACT CHARGE THE COMMISSION WITH ANY SPECIFIC TASK

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IN THIS REGARD.) THE COMMISSION PLANS TO PROPOSE TO MEMBER STATES

A COORDINATED PROGRAM SO THAT EXPANSION MEASURES ARE ANNOUNCED AT ABOUT THE SAME TIME IN SEPTEMBER. THESE GUIDELINES WILL SUGGEST THAT SELECTED MEMBER STATES, SUCH AS THE FRG, FRANCE AND THE BENELUX, SHOULD TAKE EXPANSIONARY BUDGETARY MEASURES. THE COMMISSION PROPOSES THE FOLLOWING CRITERIA FOR THESE MEASURES: (1) THEY SHOULD HAVE AN IMMEDIATE SHORT-TERM IMPACT; (2) THEY SHOULD BE REVERSIBLE, SHOULD ECONOMIC CONDITIONS CHANGE; AND (3) THE MEMBER STATES SHOULD CO-ORDINATE THEIR ANNOUNCEMENT SO AS TO OBTAIN MAXIMUM PSYCHOLOGICAL IMPACT.

3. THE COMMISSION DOES NOT PLAN TO SPECIFY THE MEASURES THAT SHOULD BE TAKEN BECUASE EACH MEMBER STATE HAS ITS OWN NATIONAL PRIORITIES. ITS PROPOSAL, HOWEVER, WILL INCLUDE A LIST OF POSSIBLE MEASURES. THESE WILL INCLUDE A REDUCTION OF PRIVATE INCOME TAXES OR EXCISE TAXES, INCREASED PUBLIC INVESTMENT, PARTICULARLY IN CONSTRUCTION ACTIVITIES, INCENTIVES TO PRIVATE INVESTMENT AND INCREASED SOCIAL WELFARE PAYMENTS.

4. COMMISSION OFFICIALS ARE ALSO CONSIDERING WAYS THEY MIGHT RESPOND TO THE EUROPEAN COUNCIL'S DESIRE TO COORDINATE CLOSELY WITH THE US AND JAPAN. ONE POSSIBILITY WOULD BE TO SEND SENIOR COMMISSION AND PERHAPS MEMBER STATE TECHNICAL OFFICIALS TO WASHINGTON TO DISCUSS CURRENT ECONOMIC CONDITIONS. THE FULL COMMISSION WILL DISCUSS THIS POSSIBILITY AS WELL AS MEMBER STATE GUIDELINES ON JULY 23.

5. THE COMMISSION MAY SEND THESE GUIDELINES DIRECTLY TO THE FINANCE MINISTERS OR IT MAY DECIDE TO WAIT UNTIL THE PROPOSED FINANCE MINISTERS' MEETING IN ITALY ON ABOUT AUGUST 20 OR UNTIL THE NEXT FINANCE COUNCIL ON SEPTEMBER 22. FRENCH PERM DEL SOURCES DOUBT THAT THE MINISTERS WILL AGREE TO ANY COORDINATED EXPANSIONARY MEASURES UNTIL THEIR SEPTEMBER MEETING BECAUSE THE INTERIM PERIOD IS NEEDED TO HAVE A CLEAR ASSESSMENT OF ECONOMIC CONDITIONS. THESE SOURCES, HOWEVER, DO NOT EXPECT EITHER THE GOF OR THE FRG TO HOLD UP INITIAL EXPANSIONARY MEASURES. THESE MEMBER STATES AND OTHERS MAY TAKE ADDITIONAL COORDINATED MEASURES AT THE END OF SEPTEMBER, IF THE ECONOMIC CONDITIONS CALL FOR THEM.

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6. COMMISSION OFFICIALS ARE NOT HOPEFUL THAT THE MEMBER STATES'S EXPANSIONARY MEASURES CAN BE EFFECTIVELY COORDINATED. EACH MEMBER IS CURRENTLY IN THE PROCESS OF DRAWING UP NEW MEASURES AND ONCE THEY ARE DECIDED UPON THEY ARE LIKELY TO ANNOUNCE THEM UNILATERALLY. THEY EXPECT THE FRG TO ANNOUNCE ITS MEASURES AT THE END OF AUGUST. IN ANY CASE THE COMMISSION PLANS MAY BE OVERTAKEN BY THE SCHMIDT/GISCARD MEETING ON JULY 25-26, WHICH WILL FOCUS ON ECONOMIC ISSUES.

7. COMMISSION FINANCIAL OFFICIALS ARE NOT TAKING SERIOUSLY THE FRENCH CALL FOR AN EC POLICY TOWARD THE DOLLAR. THE GOF COMPLAINTS THAT THE DOLLAR IS UNDER-VALUED ARE BEING UNDERCUT BY THE DOLLAR'S SHARP APPRECIATION IN RECENT WEEKS. COMMISSION OFFICIALS BELIEVE THE GOF IS JUST LOOKING FOR A SCAPEGOAT UPON WHICH TO PLACE THE BLAME FOR THE CURRENT ECONOMIC MALAISE. GREENWALD

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